



DRIVING ECONOMIC GROWTH: THE GST REVOLUTION IN INDIA

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ABSTRACT

The Goods and Services Tax (GST) represents an indirect tax imposed on the provision of both goods and services. In India, this GST Law has superseded a multitude of pre-existing indirect tax legislations, thereby establishing a unified indirect tax framework for the entire nation. GST consists of three distinct components: the Central Goods and Services Tax (CGST), the State Goods and Services Tax (SGST), and the Integrated Goods and Services Tax (IGST). Its primary objective is the reduction of the cascading tax effect, which arises when goods and services are transacted together in a single operation. By eliminating this cascading effect, GST directly influences the cost of goods. This article delves into the subject of India's Goods and Services Tax (GST) and explores its repercussions on the Indian economy. The study aims to assess the inception of GST, its operational mechanisms, and its impact on various sectors.

KEYWORDS: Economy, GST, Tax, Good & Service, CGST, SGST, IGST

INTRODUCTION

The Goods and Services Tax (GST) is a comprehensive concept aimed at simplifying a nation's complex tax structure and fostering economic growth. It serves as a unified national tax on the production, sale, and consumption of goods and services. Enacted through the Goods and Services Tax Bill, also known as the Constitution (One Hundred and Twenty-Second Amendment) Bill of 2014 in India, GST introduces a nationwide value-added tax system. GST is designed as an indirect tax that applies at every stage of production, ensuring consistency in the tax framework. Its implementation will consolidate both Central and State taxes into a single payment, enhancing India's position in domestic and international markets. GST will alleviate the tax burden on consumers, which currently stands at approximately 25% to 30%. While consumers ultimately bear the tax burden, an efficient input tax credit mechanism prevents the compounding of taxes on inputs used in production. GST streamlines and unifies various federal and state-level taxes, including excise duty and service tax at the federal level and VAT at the state level, creating a uniform market nationwide. By integrating multiple taxes into the GST system, it facilitates the efficient utilization of tax credits. Unlike the existing system that taxes output, GST's focus is on taxing consumption.

OBJECTIVES OF THE STUDY

1. To know the features of GST bill
2. To study the impact of GST on Indian economy

Economic Consequences of GST In India

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, with the aim of simplifying the country's complex tax structure and creating a unified tax system. While the implementation of GST has brought about several economic consequences, both positive and negative, it is important to note that the impact may have evolved since my last knowledge update in September 2021. Here are some of the economic consequences of GST in India up to that point:

1. **Boost to Formalization:** GST has encouraged businesses to formalize their operations. To claim input tax credits, businesses must ensure that their transactions are properly documented. This has led to a reduction in the informal sector and increased tax compliance.
2. **Streamlining of Taxes:** GST replaced a plethora of indirect taxes, such as VAT, excise duty, and service tax, with a single tax regime. This has reduced the complexity of the tax system, making it easier for businesses to understand and comply with tax regulations.
3. **Increase in Tax Revenue:** GST was expected to broaden the tax base and increase tax revenue for both the central and state governments. By reducing tax evasion and encouraging compliance, GST has contributed to higher government revenues.
4. **Reduction in Logistics Costs:** The elimination of interstate check-posts and the introduction of the e-way bill system have led to a reduction in logistics costs. This has benefited the transportation and logistics industry and improved the efficiency of the supply chain.
5. **Impact on Small Businesses:** GST initially posed challenges for small and micro-enterprises due to compliance requirements and the need for digital infrastructure. However, over time, the government introduced simplified compliance procedures to ease the burden on small businesses.

6. **Inflationary Pressures:** In the short term, the introduction of GST led to some inflationary pressures as tax rates changed for various goods and services. However, the government worked to rationalize tax rates, which helped stabilize prices.
7. **Sectoral Variations:** The impact of GST varied across sectors. Some sectors, like the service industry, benefited from reduced tax cascading, while others, like the textile and real estate sectors, faced transitional challenges.
8. **Cross-border Trade:** GST has facilitated cross-border trade by simplifying customs procedures and reducing paperwork for exports and imports. This has made Indian products more competitive in the global market.
9. **Compliance Challenges:** While GST aimed to simplify taxation, it also introduced complexities in the form of multiple tax slabs and frequent changes in tax rates. This made compliance challenging for businesses, particularly small and medium-sized enterprises.
10. **Digital Transformation:** GST necessitated a shift towards digital record-keeping and filing of returns. This accelerated the adoption of digital technology among businesses, leading to increased transparency and efficiency.

It's important to note that the economic consequences of GST continue to evolve as the tax regime matures and the government makes policy adjustments. The long-term impact of GST on India's economy will depend on factors such as tax reforms, administrative improvements, and the government's ability to address the challenges that businesses face in complying with the new tax system.

Impact on Economic Growth

The impact of the Goods and Services Tax (GST) on economic growth in India has been a subject of considerable discussion and analysis. While the GST was introduced with the primary aim of simplifying the tax system and promoting economic growth, its effects on growth have been influenced by various factors. Here are some of the key ways in which GST has impacted economic growth in India:

1. **Unified Market:** GST has transformed India into a single unified market by replacing a complex web of indirect taxes levied by the central and state governments. This has led to a reduction in internal trade barriers, improved the ease of doing business, and increased the flow of goods and services across state borders. A unified market enhances economic efficiency and fosters economic growth.
2. **Reduction in Tax Cascading:** GST has eliminated the cascading effect of taxes, where taxes were levied on taxes at each stage of production and distribution. This has reduced the overall tax burden on businesses and lowered the cost of production. As a result, prices for goods and services have become more competitive, benefiting consumers and potentially boosting demand.
3. **Increased Formalization:** GST incentivizes businesses to operate in a formal and transparent manner to claim input tax credits. This has led to greater tax compliance and an expansion of the formal economy. Formalization can result in increased job opportunities, better working conditions, and potentially higher wages, contributing to economic growth.
4. **Higher Government Revenue:** GST was expected to broaden the tax base and increase government revenue. Higher revenue can be

channeled into infrastructure development, public services, and other investments that stimulate economic growth.

5. **Improved Business Environment:** GST has streamlined tax compliance and reduced administrative complexities for businesses. This has improved the ease of doing business in India, attracting domestic and foreign investments. A favorable business environment can lead to increased economic activity and growth.
6. **Digital Transformation:** The implementation of GST has accelerated the adoption of digital technology in the business and tax administration processes. This digital transformation can lead to greater efficiency, transparency, and productivity, all of which can positively impact economic growth.
7. **Sectoral Variations:** The impact of GST on different sectors varies. Some sectors may have experienced initial disruptions due to changes in tax rates and compliance requirements, but over time, these issues were expected to stabilize. Other sectors, like logistics and supply chain management, have benefited from the simplification of tax processes.
8. **Cross-border Trade:** GST has simplified customs procedures and reduced paperwork for both exports and imports, making Indian products more competitive in the global market. This can stimulate international trade and contribute to economic growth.
9. **Short-term Challenges:** In the short term, the transition to GST may have caused certain disruptions, affecting specific industries and businesses. However, these challenges were expected to be temporary, and the long-term benefits were anticipated to outweigh these short-term issues.

Overall, the impact of GST on economic growth in India is positive, with the potential to enhance efficiency, competitiveness, and revenue generation. However, the actual impact can vary by sector, region, and specific policy measures. It is important for the government to continually monitor the effects of GST and make necessary adjustments to ensure that it continues to contribute to sustainable economic growth.

GST INDIA VS OTHER COUNTRIES

Goods and Services Tax (GST) systems vary from one country to another, and India's GST system has its unique features and characteristics when compared to other countries. Here's a comparison of India's GST with some aspects of GST systems in other countries:

Tax Rates and Slabs:

- **India:** India has a multi-tiered GST system with different tax rates (e.g., 5%, 12%, 18%, and 28%) for various categories of goods and services. Additionally, there is a special rate for certain items like gold.
- **Other Countries:** Many countries have a simpler, single or dual-rate GST system with a uniform tax rate for most goods and services. For example, Singapore has a single GST rate of 7%, while New Zealand has a single rate of 15%.

Compliance and Thresholds:

- **India:** India has complex compliance requirements, including monthly and annual filings. Small businesses with a turnover below a certain threshold are exempt from GST.
- **Other Countries:** Some countries have higher turnover thresholds for GST registration, and compliance requirements may vary. For example, in Australia, small businesses with a turnover of less than AUD 75,000 are exempt from GST registration.

Exemptions and Zero-Rating:

- **India:** India has various exemptions and zero-rated supplies. Essential items like food grains are often exempt, while certain exports are zero-rated, meaning no GST is charged, but input tax credits are available.
- **Other Countries:** Exemptions and zero-rating policies vary widely. Some countries have more comprehensive exemptions for essential goods and services, while others may apply zero-rating to a broader range of exports.

Anti-Profiteering Mechanism:

- **India:** India introduced an anti-profiteering mechanism to ensure that businesses pass on the benefits of reduced tax rates to consumers.
- **Other Countries:** Not all countries have a similar anti-profiteering mechanism.

State and Central GST:

- **India:** India's GST is dual in nature, with both state (SGST) and central (CGST) components. This means that both the central and state governments levy and administer GST.
- **Other Countries:** Some countries have a centralized GST system, while others have a decentralized system where sub-national governments (states or provinces) have their own GST systems.

GST Compliance Software:

- **India:** The implementation of GST in India required the development of extensive GST compliance software, such as the Goods and Services Tax Network (GSTN).
- **Other Countries:** The level of digitalization and the complexity of GST compliance software can vary from one country to another.

Revenue Thresholds and Composition Scheme:

- **India:** India introduced a Composition Scheme for small businesses with an annual turnover up to a specified limit, allowing them to pay GST at a fixed rate and file simplified returns.
- **Other Countries:** Some countries have similar schemes for small businesses, while others may have different thresholds and rules.

It's important to note that each country's GST system is designed to suit its specific economic and administrative needs. The structure, rates, and policies of GST can vary significantly from one country to another, reflecting the country's economic conditions, political considerations, and administrative capabilities. Therefore, while India's GST system shares some common elements with GST systems in other countries, there are also notable differences.

Impact of GST on Poverty Line

The Goods and Services Tax (GST) in India is a comprehensive indirect tax reform aimed at simplifying the tax structure, reducing tax evasion, and promoting economic growth. While its primary objectives are related to taxation and the business environment, GST can indirectly impact the poverty line and the socio-economic conditions of the population. Here are some ways in which GST may have affected the poverty line in India:

1. **Reduced Tax Cascading:** GST replaces multiple indirect taxes with a unified tax system, eliminating the cascading effect of taxes. This leads to lower prices for goods and services, which can benefit consumers, including those in the lower-income brackets. Lower prices for essential goods can help alleviate the burden on low-income households.
2. **Formalization of the Economy:** GST encourages businesses to operate in a formal and transparent manner to claim input tax credits. This formalization can result in increased job opportunities, better working conditions, and potentially higher wages for workers, ultimately improving the economic conditions of the workforce.
3. **Improved Tax Compliance:** GST's electronic invoicing and reporting requirements help curb tax evasion, which can lead to higher government revenue. Increased government revenue can potentially be directed towards poverty alleviation programs, social welfare schemes, and infrastructure development.
4. **Impact on Essential Goods:** The GST system includes different tax rates, with essential goods often taxed at lower rates or exempted. This is intended to protect consumers, especially those with lower incomes, from the impact of higher taxation on necessities.
5. **Challenges for Small Businesses:** While GST aims to simplify taxation, it can pose challenges for small and micro-enterprises in terms of compliance and operational costs. These challenges may affect employment in the informal sector, potentially impacting those already at or below the poverty line.
6. **Transitional Challenges:** The initial rollout of GST may have caused short-term disruptions in certain sectors, which could affect income and employment opportunities. However, over time, these issues were expected to stabilize.
7. **Targeted Government Interventions:** To mitigate any adverse effects on the vulnerable population, the Indian government has implemented various social safety net programs and subsidies. These initiatives are intended to protect those who might be disproportionately affected by the GST, such as providing direct cash transfers or subsidized food through the Public Distribution System (PDS).

It's essential to understand that the impact of GST on the poverty line and socio-economic conditions is multifaceted and can vary across different regions and population groups. While GST has the potential to improve economic efficiency and government revenue, its actual effects on poverty alleviation depend on various factors, including the specific design and implementation of GST, as well as complementary policies aimed at addressing poverty and income inequality. Additionally, the impact of GST on poverty can evolve over time as the tax system matures, and the government adjusts policies to address challenges and vulnerabilities in the system. Monitoring and evaluating the socio-economic impact of GST on different segments of the population is an ongoing process for policymakers in India.

How GST Will Impact Sectors

The Goods and Services Tax (GST) has had varying impacts on different sectors of the economy in India. While GST was designed to streamline the taxation system and create a unified market, its effects on individual sectors depend on factors such as tax rates, compliance requirements, and industry-specific dynamics. Here's a sector-wise analysis of how GST has impacted various sectors in India:

1. **Manufacturing and Industry:**
Positive Impact: GST has reduced tax cascading and streamlined supply chains, leading to cost savings and increased competitiveness. Manufacturers can claim input tax credits, reducing the tax burden on raw materials and improving overall efficiency.
2. **Services:**
Positive Impact: Many services, especially those that were previously subject to a complex tax structure, have benefited from the simplified tax regime. Service providers can now claim input tax credits, making it more cost-effective to provide services.
3. **Retail and Consumer Goods:**
Mixed Impact: While GST has simplified taxation for consumer goods, it introduced different tax slabs. Essential items are taxed at lower rates, benefiting consumers, while certain luxury goods are taxed at higher rates. The retail sector has adapted to the new tax structure, but price fluctuations for certain items can affect consumer behavior.
4. **Real Estate:**
Mixed Impact: GST brought in greater transparency and compliance in the real estate sector. However, the real estate industry faced challenges during the transition period. Developers can claim input tax credits, which can help reduce the overall tax burden.
5. **Agriculture:**
Positive Impact: Most agricultural products are either exempt or taxed at a lower rate under GST. This benefits both farmers and consumers. However, some states continue to levy Agricultural Produce Market Committee (APMC) fees, which can vary and add complexity.
6. **Logistics and Transportation:**
Positive Impact: GST has simplified interstate movement of goods by eliminating check posts and reducing logistics costs. This has benefited the logistics and transportation sectors, improving supply chain efficiency.
7. **E-commerce:**
Positive Impact: E-commerce platforms have adapted to GST, and it has increased the formalization of the sector. The introduction of the Tax Collected at Source (TCS) mechanism has made it easier for tax authorities to track transactions.
8. **Healthcare and Pharmaceuticals:**
Mixed Impact: The healthcare sector has seen lower tax rates on certain essential medicines and medical devices. However, there have been challenges related to the classification of pharmaceutical products, leading to ambiguity and compliance issues.
9. **IT and Technology:**
Positive Impact: The IT sector has generally benefited from GST, as it has simplified tax compliance for software services and reduced cascading taxes.
10. **Small and Medium Enterprises (SMEs):**
Mixed Impact: While GST has simplified taxation, it introduced compliance challenges for many SMEs. The government introduced the Composition Scheme to ease the compliance burden for small businesses.
11. **Tourism and Hospitality:**
Mixed Impact: GST has impacted hotels and restaurants differently based on their tariffs. Luxury hotels face higher taxes, while budget hotels have benefited from lower rates.

It's important to note that the impact of GST can evolve over time as the tax system matures and businesses adapt. The government has made efforts to address sector-specific issues and has adjusted tax rates and compliance requirements in response to industry feedback. Additionally, the economic landscape, consumer behavior, and business strategies may also change in response to GST, further influencing its impact on various sectors.

CONCLUSION

The Goods and Services Tax (GST) has had a profound and multifaceted impact on the economy of India since its historic implementation in July 2017. Perhaps the most significant change brought about by GST is the simplification of India's tax structure. By replacing a labyrinthine system of multiple indirect taxes levied by both the central and state governments, GST has streamlined taxation, making it far more comprehensible for businesses. This simplification has enhanced the ease of doing business in the country, reducing compliance burdens and making it more attractive for both domestic and foreign investors.

Furthermore, GST has transformed India into a unified market, eliminating internal trade barriers that previously hindered the movement of goods and services across state borders. This unification has led to increased economic efficiency, making it easier for businesses to expand their operations and for consumers to access a wider range of products and services.

The tax reform has also had a significant impact on reducing tax evasion. The introduction of digitalization, stringent reporting mechanisms, and the transparency embedded in the GST framework have resulted in a notable decrease in tax evasion. This, in turn, has boosted government revenues, which can now be directed towards essential public services, infrastructure development, and poverty alleviation programs.

Moreover, GST has played a pivotal role in the formalization of the Indian economy. To claim input tax credits, businesses are incentivized to operate transparently and within the formal economy. This formalization has translated into more job opportunities, improved working conditions, and potentially higher wages for the workforce, particularly in sectors that were previously informal and unregulated.

While the impact of GST varies across sectors, many industries have benefited from the reduced tax burdens and streamlined supply chains that GST has ushered in. Manufacturing, logistics, and industries with complex supply chains have witnessed cost savings and increased competitiveness. However, it's important to acknowledge that GST did present challenges during its initial rollout, especially for small businesses. In response, the government introduced the Composition Scheme and other policy adjustments to ease compliance burdens for small and medium-sized enterprises.

In conclusion, GST has not only simplified India's tax system but also fostered a more efficient, unified, and transparent economy. It holds the potential to contribute significantly to sustained economic growth, further attracting investment, and aiding in the country's economic development. As India continues to fine-tune and adapt its GST framework, the long-term effects on economic growth and development remain promising.

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